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Japan

Dairy and Products

Annual Report

2004

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Report Highlights:
Japan's milk production is projected to ease to 8.32 million MT in 2005. Subsidy levels for milk (manufacturing) are not expected to change, causing the NFDM surplus supply situation to continue in 2005. Purchases of butter under the current access are expected to continue in 2005. Cheese imports are expected to rise by about 2% to 220,000 MT in 2005 due to firm demand in the food service industry. Imports of U.S. cheese are expected to benefit if the Yen remains strong against the US Dollar. Imports of U.S. cheese in 2004 (Jan-Sep) are up by 15% compared to the same period in 2003.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Fluid Milk Section

2005 Outlook

Japan's total fluid milk production in 2005 is projected slightly lower at 8.32 million MT, reflecting an expected decrease in the number of milking cows. Japan's fluid milk utilization patterns are expected to remain relatively unchanged in 2005. Post does not expect a substantial change in the government's subsidy payment for manufacturing milk, and the oversupply situation in manufacturing milk is expected to persist in 2005.

2004 Situation and Update

Japan's fluid milk production forecast slightly lower

Japan's fluid milk production is forecast to fall slightly to 8.36 million MT in 2004. Based on January – September data, production in Hokkaido will likely remain relatively unchanged, while output in other regions is expected to ease.

Fluid milk utilization (for drinking) is expected to fall slightly to 4,965 million MT, based on January – September data (see explanation of new data series below). Decreased utilization of fluid milk for fresh milk and fermented milk products in 2004, will likely offset increased utilization of processed milk and milk beverages (See tables 1 and 3). Fluid milk utilization for processing (factory use) is forecast to rise slightly from the previous year to 3.31 million MT, leading to modest increases in the production of subsidized NFDM and butter (See tables 2 and NFDM and Butter sections).

Table 1. Japanese Utilization of Fluid Milk for Drinking Use Category

Period: January – September, 2003 – 2004			
			Unit: 1,000 Kilo Liters
	2003	2004	% Chg.
Regular Milk*	3,047	2,999	-2%
Processed Milk*	345	365	6%
Milk Beverages	868	913	5%
Fermented Milk	607	595	-2%
Lactic Acid Bacteria Drinks	138	133	-4%

Note 1: Processed Milk: low fat, high fat, vitamin and mineral fortified, calcium enriched, Milk Beverages: flavored milk (coffee and fruits flavored). And Fermented Milk: Yogurt etc.
***Data are under a new statistical method.**
Note 2: Figures are preliminary.
Source: Agriculture & Livestock Industry Corporation (ALIC), Ministry of Agriculture Forestry and Fisheries (MAFF)

Table 2. Japanese Utilization of Fluid Milk for Drinking Use Category

Period: January – September, 2003 – 2004			
			Unit: Metric Ton
	2003	2004	% Chg.
Butter	61,141	62,525	2%
Cream	63,541	62,010	-2%
Whole Milk Powder	13,257	11,672	-12%
Prepared Milk Powder	27,314	25,771	-6%
Skim Milk Powder (NFDM)	136,239	138,945	2%
Ice Cream (Unit: kilo liter)	75,962	84,662	11%
Note: Figures are preliminary. Source: ALIC			

Table 3. Japanese Household Consumption of Dairy Commodities

Period: January – September, 2003 – 2004						
	Quantities			Expenditures (Yen)		
	2003	2004	% Chg.	2003	2004	% Chg.
Milk (liter)	79	77	-2%	15,452	15,008	-3%
Cheese (grams)	1,669	1,657	-1%	2260	2199	-3%
Butter (grams)	357	357	0%	493	503	2%
Note: Figures are preliminary. Source: Ministry of Internal Affairs & Communication						

New Data Series for Fluid Milk PS&D: Starting April 2003 (JFY 2003), the Japanese government changed the statistical data for reporting utilization of fluid milk for "fluid use (drinking use)" and "factory use (dairy product use)" in accordance with relevant definition changes made in the Government's Milk Ordinance. In light of the above, Post has started a new data series for Japan's fluid milk PS&D in this report, with the changes in MAFF's milk utilization statistics as follows: In previous data series, some fluid milk utilized by the food service sector was counted as "factory use". Under the new system, MAFF has moved this value to "drinking use" statistics. Post's fluid milk figures for CY 2003 – 2004 reflect this change based on preliminary estimates provided by MAFF.

NFDM and Butter Section

2005 Outlook

Milk subsidy will likely lead to surplus of dairy products in 2005

Assuming Japan's support levels for milk producers are relatively unchanged, Japan's fluid milk utilization for factory use is projected down by 1% in 2005. This marginal decline reflects modest declines in the production of NFDM (projected down by 4% to 180,000 MT) and butter (projected down by 2% to 80,000 MT). Assuming demand for both commodities remains relatively stable, Japan will continue to experience a surplus of NFDM in 2005 in addition to higher year-ending butter stocks.

Four years ago, Japan changed its dairy subsidy program from a deficiency payment system to a direct payment system. This change was intended allow dairy cooperatives and dairy product manufacturers to negotiate directly to determine fluid milk prices for processing use. However, little has changed as dairy cooperators remain powerful enough to effectively maintain higher prices, and continue to yield enough political clout to keep direct payments from being cut (payment level and subsidy volume). No significant subsidy cuts are anticipated during Japanese fiscal year 2005 (April 2005 - March 2006) (See table 4).

Japan expected to commit current access to butter again in 2005

In recent years, Japan has used its dairy current access to import butter instead of NFDM. In 2004, an abnormally long and hot summer helped to ease the NFDM surplus by briefly increasing ingredient demand for NFDM, which is projected up by 6% for the year. However, the rise in ingredient demand fell far short in correcting the persistent NFDM surplus situation, which is expected to result in a 6% increase (to 90,000 MT) in ending stocks for 2004. Consequently, Japan will likely commit the entire current access to butter again in 2005, which is projected to amount to 10,000 MT (carryover of JFY 2004 and part of JFY 2005 combined). This will result in higher year-ending butter stocks for 2005. Assuming butter demand remains relatively unchanged in 2005, Japan's butter situation will likely shift to a surplus situation beyond 2005, which raises interesting questions about how Japan will manage current access imports if both NFDM and butter are in surplus.

Table 4. Government's Payments for Manufacturing Milk

	Unit Subsidy Payment			Eligible Volume	
JFY 1995	11.49	Yen/kg	Deficiency payment	2.30	Million MT
JFY 1996	11.49	Yen/kg	Deficiency payment	2.30	Million MT
JFY 1997	10.87	Yen/kg	Deficiency payment	2.40	Million MT
JFY 1998	10.84	Yen/kg	Deficiency payment	2.40	Million MT
JFY 1999	10.80	Yen/kg	Deficiency payment	2.40	Million MT
JFY 2000	10.30	Yen/kg	Deficiency payment	2.40	Million MT
JFY 2001	10.30	Yen/kg	Direct Payment	2.27	Million MT
JFY 2002	11.00	Yen/kg	Direct Payment	2.20	Million MT
JFY 2003	10.74	Yen/kg	Direct Payment	2.10	Million MT
JFY 2004	10.52	Yen/kg	Direct Payment	2.10	Million MT
Source: ALIC and MAFF					

Note: Subsidy Scheme has been switched to a direct payment mode since JFY 2001.

2004 Updates and Revised Outlook Summary

NFDM surplus situation persists in 2004

Japan's NFDM surplus supply situation has persisted for several years running, and appears to be worsening. The main problem is excessive domestic production relative to actual market demand, which has remained stagnant. Reduced demand for NFDM as an ingredient for processed milk drinks, milk beverages, and fermented milk products, along with lethargic demand in the bakery sector, are fueling slumping demand. Growth prospects for domestic NFDM for ingredient use, which is subsidized and high-priced, will likely remain limited in the future. The slight increase in utilization of fluid milk for processing has resulted in a 2% increase (to 187,000 MT) in NFDM production.

Utilization of NFDM (for human consumption) is projected to rise by 6% to 185,000 MT in 2004, due primarily to a voluntary stock adjustment program implemented by Hokuren, the largest dairy cooperative in Hokkaido (See JA 4054), and a temporary demand spike during the summer months.

Monthly imports of NFDM (for school lunch programs, feed, and other uses combined) for January – September have remained low, and total imports for 2004 are expected to drop by 16% to 36,000 MT, most of which will be for feed use. Imports for the school lunch programs are expected to remain low. Also, no NFDM imports under the current access will be made during 2004 and beyond, which will keep NFDM imports under other category minimal (See table 5).

Japan's total NFDM utilization (for human and feed use combined) in 2004 is forecast to grow slightly, projected up 3% to 218,000 MT, which will be insufficient to correct the prevailing surplus situation, resulting in bigger year-ending stocks.

Table 5. Japanese imports of Non Fat Dry Milk

Period: January – September, 2003 – 2004			
			Unit: Metric Ton
	2003	2004	% Chg.
For School Lunch Program	2,231	2,268	2%
For Feeds	25,837	24,276	-6%
For Other Use (mostly for Current Access)	2,881	967	-66%
Total NFDM Imports	30,949	27,511	-11%
Source: ALIC			

Butter demand and supply forecast to balance in 2004

Japan's 2004 butter production is forecast to rise by 2% to 82,000 MT. Market demand for butter (including ingredient utilization) is projected slightly lower, down by 1% to 88,000 MT. Total butter imports, mostly under the current access, are forecast at 8,000 MT, which includes 3,200 MT of current access carry-over from JFY 2003.

Japan is expected to commit the entire JFY 2004 current access to butter, which would be up to 8,600 MT for April 04 - March 05. According to ALIC, the exclusive buyer and the seller of current access butter, 3,100 MT of butter is scheduled to arrive by the end of December

2004, while about 1,700 MT is scheduled to arrive after January 2005. The remainder will be committed for January – March 2005. The pace of Japan's butter purchases under the current access has slowed in the absence of the tight supply situation, which prevailed in 2003. Trade sources also attribute the slower pace to high international prices, particularly for EU butter due to subsidy cuts and a strong Euro, and food safety concerns about imported butter. Year ending stocks are estimated at around 26,000 MT in 2004, up 8% from the year beginning.

Cheese Section

2005 Outlook

Following the recovery in consumption in 2004, import demand for cheese is expected to grow modestly in 2005, projected up by 2% to 220,000 MT, with the major suppliers being Oceania and the EU. Market demand for cheese is expected to remain firm, particularly in the food service, and prepared and processed food sectors. Continued high prices for imported natural cheese will likely cap import growth. In addition, the reported detection of dioxin in milk produced in the Netherlands may initially slow imports from the EU in 2005.

However, if the Euro weakens against Japanese yen in 2005, imports from the EU could strengthen, pushing Post's import projection higher. Products from Oceania are expected to remain competitive in the Japanese market if the Yen continues to remain strong against U.S. dollar, since Australian cheese is generally traded on U.S. dollar account basis. A continued strong yen against the dollar in 2005 could prompt imports of U.S. graded and powdered cheese and cream cheese.

2004 Situation and Update

Imports grow despite high international prices

Post revised its 2004 forecast for Japanese cheese imports and demand. The revision reflects improvements in the market situation since the last semiannual report. Total imports are projected to rise by 11% to 215,000 MT in 2004, and demand is projected to increase by 9% to 250,000 MT (See table 6-1, 6-2 and 6-3).

Despite high international prices, imports during January to September (2004) rose by 14%, with Australia and New Zealand holding a combined share of nearly 70%, and EU suppliers generally sharing the remainder. According to market sources, Japanese buyers made additional purchases in anticipation of higher international prices, particularly for EU natural cheese. Further, the stronger yen against U.S. dollar enhanced the relative competitiveness of Oceania cheese.

Demand in Japan's food service and prepared and processed food sectors has generally improved in 2004, which offset lethargic household consumption. This trend is reflected in the increase in imports (January to September) for categories under HS 040690 (Other Cheeses) and HS 040610 (Fresh Cheeses). More specifically, the demand for raw material natural cheese under the so called "pooled quota" (zero tariff), which is blended with domestic natural cheese to manufacture processed cheese for the food service industry, has significantly increased (HS 0406.90.010, Jan. – Sept. total, up 15% to 31,178 MT with more than 80% supplied by Oceania).

Medium fat cream cheese imports to rise sharply in 2004

Imports of fresh cheese, which includes ordinary cream cheese, fresh mozzarella (for pizzas), and medium fat cream cheeses, rose by 22% during the first nine months of 2004. (HS 0406.10.090, Jan. – Sept. total at 55,954 MT, with 65% supplied by Australia). About one-fourth of Australian fresh cheese reportedly contains a special cream cheese product modified to contain specific protein and fat (medium 60 – 50%). This medium fat cream cheese is used as a fat substitute to make ice desserts and confectionary products, which were in demand during Japan's long hot summer. Imports of U.S. cheese also increased significantly during this period, up by 15% to 3,257 MT, with main product categories being grated/powdered and cream cheese. The exchange rate advantage (strong yen against dollar) is expected to maintain import growth for U.S. cheese during the remainder of the year. Total imports of U.S. cheese are projected at about 4,000 MT in 2004. The reported detection of milk contaminated with dioxin from a farm in the Netherlands could slow imports of cheese and other dairy products from the EU for the rest of 2004, which could weigh on total imports for the year.

Table 6-1. Japanese Cheese Imports

Japan 0406 CHEESE AND CURD						
					% Chg.	Share
Rank	Country	- MT - 2002	- MT - 2003	- MT - 2004	04/03	04
		Jan. – Sept.	Jan. – Sept.	Jan. – Sept.	Jan. – Sept.	Jan. – Sept.
0	**--World--**	**152,494**	**138,993**	**158,374**	**14%**	**100%**
1	**Australia**	**72,004**	**60,850**	**71,114**	**17%**	**45%**
2	**New Zealand**	**33,207**	**31,214**	**37,535**	**20%**	**24%**
3	Germany	8,768	9,687	9,964	3%	6%
4	Denmark	9,031	9,774	8,489	-13%	5%
5	Netherlands	7,897	7,373	7,765	5%	5%
6	France	4,612	4,905	5,152	5%	3%
7	Italy	3,114	3,479	3,953	14%	2%
8	Norway	4,056	3,734	3,510	-6%	2%
9	United States	3,479	2,822	3,257	15%	2%
10	Belgium	1,098	1,239	2,424	96%	2%
11	Others	5,228	3,915	5,213	33%	3%

Source: WTA

Table 6-2. Japanese Cheese Imports (Average C & F Price)

Japan 0406 CHEESE AND CURD Average Price (US Dollars)					
					% Change
Rank	Country	- / KG - 2002	- / KG - 2003	- / KG - 2004	04/03
		Jan. – Sept.	Jan. – Sept.	Jan. – Sept.	Jan. – Sept.
0	--World--	2.8	2.91	3.11	6.87
1	Australia	2.29	2.3	2.51	9.13
2	New Zealand	2.41	2.2	2.41	9.55
3	Germany	2.65	2.69	2.81	4.46
4	Denmark	3.53	3.96	4.46	12.63
5	Netherlands	2.89	3.11	3.38	8.68
6	France	6.54	7.23	7.44	2.9
7	Italy	7.83	8.81	9.3	5.56
8	Norway	2.36	2.43	2.53	4.12
9	United States	6.52	6.56	6.92	5.49
10	Belgium	2.41	2.18	2.58	18.35

Source: WTA

Table 6-3. Japanese Cheese Imports by Product Category

Japan Imports by Category Period: January – September								
HS	Description	2002	-	2003	-	2004	-	04/03
	--World--							% Chg.
	0406 CHEESE AND CURD	152,494	MT	138,993	MT	158,374	MT	14%
040610	FRESH CHEESE	53,220	MT	44,306	MT	53,357	MT	20%
040620	CHEESE,GRATE/POWDER	2,965	MT	3,038	MT	3,258	MT	7%
040630	CHEESE,	3,745	MT	4,142	MT	4,173	MT	1%
040640	CHEESE, BLUE, OTHER	505	MT	533	MT	529	MT	-1%
040690	OTHER CHEESE	92,059	MT	86,973	MT	97,058	MT	12%

Source: WTA

Fluid Milk PS&D Table

Japan Dairy, Milk, Fluid							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Cows In Milk	964	964	960	936	0	930	(1000 HA)
Cows Milk Production	8403	8400	8400	8360	0	8320	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	8403	8400	8400	8360	0	8320	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	8403	8400	8400	8360	0	8320	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	5006	5035	5005	4965	0	4965	(1000 MT)
Factory Use Consum.	3311	3279	3310	3310	0	3270	(1000 MT)
Feed Use Dom. Consum.	86	86	85	85	0	85	(1000 MT)
TOTAL Dom. Consumption	8403	8400	8400	8360	0	8320	(1000 MT)
TOTAL DISTRIBUTION	8403	8400	8400	8360	0	8320	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Note: New data series started from revised estimates from CY 2003 as explained in Fluid Milk Section in the text.

NFDM PS&D Table

Japan Dairy, Milk, Nonfat Dry							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	70	70	85	85	90	90	(1000 MT)
Production	183	183	185	187	0	180	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	43	43	45	36	0	35	(1000 MT)
TOTAL Imports	43	43	45	36	0	35	(1000 MT)
TOTAL SUPPLY	296	296	315	308	90	305	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	175	175	190	185	0	180	(1000 MT)
Other Use, Losses	36	36	35	33	0	32	(1000 MT)
Total Dom. Consumption	211	211	225	218	0	212	(1000 MT)
TOTAL Use	211	211	225	218	0	212	(1000 MT)
Ending Stocks	85	85	90	90	0	93	(1000 MT)
TOTAL DISTRIBUTION	296	296	315	308	0	305	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Butter PS&D Table

Japan Dairy, Butter							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	20	20	24	24	27	26	(1000 MT)
Production	80	80	82	82	0	80	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	13	13	10	8	0	10	(1000 MT)
TOTAL Imports	13	13	10	8	0	10	(1000 MT)
TOTAL SUPPLY	113	113	116	114	27	116	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Domestic Consumption	89	89	89	88	0	88	(1000 MT)
TOTAL Use	89	89	89	88	0	88	(1000 MT)
Ending Stocks	24	24	27	26	0	28	(1000 MT)
TOTAL DISTRIBUTION	113	113	116	114	0	116	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Cheese PS&D Table

Japan Dairy, Cheese							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	15	15	15	15	15	15	(1000 MT)
Production	36	35	36	35	0	35	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	194	194	209	215	0	220	(1000 MT)
TOTAL Imports	194	194	209	215	0	220	(1000 MT)
TOTAL SUPPLY	245	244	260	265	15	270	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	230	229	245	250	0	255	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	230	229	245	250	0	255	(1000 MT)
TOTAL Use	230	229	245	250	0	255	(1000 MT)
Ending Stocks	15	15	15	15	0	15	(1000 MT)
TOTAL DISTRIBUTION	245	244	260	265	0	270	(1000 MT)
Calendar Yr. Imp. from U.S.	4	4	4	4	0	4	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)